UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

JUDGE SCHOFIELD

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UNITED STATES OF AMERICA :

-v- : INDICTMENT

JAVIER MARTIN-ARTAJO and : 13 Cr.
JULIEN GROUT, :

13 CRIM 707

Defendants. :

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COUNT ONE

(Conspiracy to Falsify Books and Records, Commit Wire Fraud, Make False Filings With the SEC and Commit Securities Fraud)

The Grand Jury charges:

Relevant Persons and Entities

1. At all times relevant to this Indictment, JPMorgan Chase & Company ("JPM") was a global financial services company headquartered in New York, New York. JPM is one of the oldest and largest financial institutions in the United States.

2. At all times relevant to this Indictment, JPM's common stock traded on the New York Stock Exchange.

3. At all times relevant to this Indictment, JPM was required to comply with the federal securities laws, which are designed to ensure that a company's financial information is accurately recorded and accurately disclosed to the public. Specifically, pursuant to the Securities Exchange Act of 1934

and the rules and regulations promulgated thereunder, JPM was required, among other things, to make and keep books, records, and accounts that accurately and fairly reflected JPM's business transactions.

4. At all times relevant to this Indictment, JPM maintained a group within its Corporate/Private Equity division known as the Chief Investment Office, or "CIO." The CIO has offices in both New York and London, and at all times relevant to this Indictment had more than 100 traders. One of the purposes of the CIO, as described by JPM, was to manage the bank's excess deposits (the amount deposited with the bank, minus the amount it had loaned) of its corporate and individual customers. In 2012, those deposits managed by the CIO totaled approximately $350 billion.

5. Since approximately 2007, the CIO has traded in so-called synthetic credit derivative products. One common such product is known as a "credit default swap," or CDS. A CDS is, in essence, an insurance contract on some underlying credit risk. For example, Company A may issue corporate bonds. Company B can purchase those bonds, and therefore be exposed to the risk that Company A will default on its bond payments (credit risk). To insure against that risk, Company B can "buy protection" in the form of a CDS that insures against the risk of Company A defaulting. However, an investor need not own the

underlying bond in order to purchase (or sell) a CDS - it can trade in the credit default swaps by themselves. JPM's CIO did just that, and in particular - and as discussed further below - traded so-called CDS "indices," which are collections of credit default swaps that are packaged together and can be traded as one, or sliced into segments and traded as "tranches."

6. The CIO traded these credit indexes and tranches in what it called its Synthetic Credit Portfolio, or "SCP." By 2011, that portfolio had reached an approximate net notional size of $51 billion, and during the first quarter of 2012, it more than tripled in size to approximately $157 billion in net notional positions.

7. At all times relevant to this Indictment, JAVIER MARTIN-ARTAJO ("MARTIN-ARTAJO"), the defendant, was employed at JPM as a Managing Director, where he held the position of Head of Credit and Equity Trading for CIO. MARTIN-ARTAJO principally worked out of CIO's London office, although his duties also brought him to JPM's New York office. Among other things, MARTIN-ARTAJO oversaw the CIO's SCP.

8. At all times relevant to this Indictment, JULIEN GROUT, the defendant, was employed as a Vice President for the CIO and a trader for the SCP. GROUT was based in JPM's CIO London office. GROUT reported to JAVIER MARTIN-ARTAJO, the defendant. GROUT was responsible for the day-to-day "marking"

of the CIO's positions in the SCP, a process described in more detail below.

9. At all times relevant to this Indictment, another co-conspirator not named as a defendant herein ("CC-1") was a CIO trader based in JPM's London office. CC-1 was the head trader of the SCP, and reported to JAVIER MARTIN-ARTAJO, the defendant.

10. At all times relevant to this Indictment, other traders ("Trader #2" and "Trader #3") worked as CIO traders based in JPM's London office. From time to time, Trader #2 had responsibility for marking the positions of the SCP, most often when JULIEN GROUT, the defendant, was unavailable or out of the office.

11. The SCP was, over the years, very profitable for the CIO and JPM. In 2009, its most profitable year, the SCP produced over $1 billion in revenue for JPM. The SCP also was profitable in 2010 and 2011. In fact, the SCP had last reported an unprofitable quarter in 2010, and had not reported significant quarterly losses since the first quarter of 2009. Since its inception in 2006, the SCP produced approximately $2 billion in gross revenues for JPM.

Background

12. As described above, the SCP principally consisted of a variety of different credit derivative securities, including credit indices and tranches. A credit index is a security that operates as a collection, or basket, of selected credit instruments. A particular credit index references a particular collection of selected credit instruments, often CDSs. As of March 2012, the CIO held more than one hundred different types of credit indices, and among the largest positions in the SCP were three particular kinds of indices: the CDX.NA.IG, which references securities in investment grade corporations in North America; the CDX.NA.HY, which references securities in high yield North American corporations; and the iTraxx Europe, which references securities in investment grade companies in Europe.[1]

13. Another type of security that was traded in the SCP was credit index tranches. A credit index tranche is an instrument that relates to a particular part of a credit index.

14. JPM traders who traded these types of securities - within the CIO as well as the rest of the bank - were required at all times to price securities they held at their fair value,

[1] Each kind of credit index is available in a different "series" and with different maturities. For example, one of the SCP's largest positions was in the 10-year maturity version of series 9 of the North American investment grade index, referred to as the CDX.NA.IG9-10Y.

that is, on a "mark-to-market" basis, determined by reference to the current market price of the asset or liability, or the current market price for a similar asset or liability. The positions in the SCP were, and were required to be, marked on a daily basis. The marks were transmitted electronically by the trader setting the mark to other bank personnel in the Operations Department, and ultimately became part of the bank's books and records.

15. Because credit indices and credit tranches are not traded over an exchange, JPM traders were required to look to other indicia in order to determine the fair value of the assets on their books. Traders would consult three principal sources of information in order to determine the fair value of the securities in the SCP: recently executed transaction prices in the security they were valuing, or in similar securities; buy and sell prices (known as "bids" and "offers") posted by dealers in the securities they were valuing, or for similar securities; and published averages of dealer bids and offers, including those published by financial information service companies such as MarkIT and Totem, which provide, among other things, independently gathered valuation data. It was widely understood within JPM that traders were to consult these data points when setting prices for credit indices and credit tranches within the SCP. Under U.S. Generally Accepted Accounting Principles ("U.S.

GAAP"), traders were required to set the value, or mark, for a particular security at a price at which they believed they could exit the position.

16. JPM's accounting policy stated that the "starting point for the valuation of a derivatives portfolio is mid-market." The policy also stated that for securities for which dealer quotes are available, the prices to be used for the purpose of marking these securities "must be obtained [from dealers] at the same time each business day."

Overview of the Scheme to Defraud

17. From at least in or about March 2012, through and including in or about May 2012, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, together with their co-conspirators, manipulated and inflated the value of position markings in the SCP in order to achieve specific daily and month-end profit and loss ("P&L") objectives; in other words, they artificially increased the marked value of securities in order to hide the true extent of significant losses in that trading portfolio. MARTIN-ARTAJO engaged in, and directed, this scheme in order to enhance his apparent job performance, his position at JPM, and his eligibility for promotion and bonuses, as well as to forestall a possible plan by the bank to move the SCP from the CIO to JPM's Investment Bank. GROUT engaged in this scheme in order to curry favor with his supervisor, and to enhance his

apparent job performance and therefore his eligibility for promotion and bonuses from JPM.

18. As a result of the scheme executed by JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and others, there was a growing disparity between the values falsely ascribed to the positions in the SCP and what the traders truly believed as their fair value. This gap reached hundreds of millions of dollars by the end of March 2012.

19. As a result of the scheme, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and their co-conspirators, falsely hid losses in the SCP, and caused JPM to (i) record false entries for the SCP for the first quarter of 2012; and (ii) report false quarter-end numbers for the first quarter of 2012. MARTIN-ATAJO, GROUT, and their co-conspirators persisted in this scheme of systematically and fraudulently valuing the securities in the SCP until approximately May 2012.

20. Ultimately, in July 2012, JPM announced in a Form 8K that it would restate its first quarter results for net revenue by $660 million, reflecting its loss of confidence that the marks - made by JULIEN GROUT, the defendant, at the direction of JAVIER MARTIN-ARTAJO, the defendant - "reflect good faith estimates of fair value."

MARTIN-ARTAJO, GROUT, and Their Co-Conspirators
Knowingly Mismarked Securities in Order to Hide Losses

21. For most of 2011 and into 2012, CIO traders had a practice of marking the securities in the SCP at or near the mid-point between the average bid and offer that the CIO received each day from a number of dealers who made a market in that particular security. The CIO traders sometimes referred to this mid-point as the "crude mid."

22. Beginning in or about January 2012, the value of the positions in the SCP - as reflected by the executed prices of actual transactions, the bids and offers received from dealers, and by the prices listed by MarkIT and Totem - began to move against the SCP's positions, and the SCP began to lose money. At the end of January 2012, JULIEN GROUT, the defendant, marked the positions in the SCP at or near the crude mid, and the CIO reported approximately $100 million in mark-to-market losses in the SCP for the month.

23. The losses through January 2012 did not go unnoticed within the bank. When these losses were reported, the direct supervisor of JAVIER MARTIN-ARTAJO, the defendant, as well as the Chief Investment Officer herself, became increasingly concerned and inquired more regularly about the losses. For example, on January 31, 2012, MARTIN-ARTAJO's supervisor sent him an e-mail expressing the "need to discuss the synthetic book [referring to the SCP]," noting that the current strategy did not seem to be working, stating that the

"financial Performance [sic] is worrisome," and indicating the need to "urgently reevaluate" the core position. Thereafter, MARTIN-ARTAJO was directed to focus his attention on the performance of the SCP.

24. Despite strategic trading changes that involved an increase in the net notional positions of the SCP, the losses in the SCP continued through February 2012. As the losses continued to mount, JAVIER MARTIN-ARTAJO, the defendant, was subject to continued and increasing scrutiny and pressure from the executives senior to him. MARTIN-ARTAJO, in turn, began pressuring JULIEN GROUT, the defendant, and CC-1, to mark the SCP's positions in such a way as to show smaller losses. MARTIN-ARTAJO also urged CC-1 and GROUT to "defend the positions" by executing trades, and attempting to execute trades, at favorable prices. MARTIN-ARTAJO put particular pressure on GROUT and CC-1 to "defend the positions" near the end of the month, when the SCP's positions would be subjected to closer scrutiny through JPM's internal price testing process, described below, and when the SCP's P&L would be viewed more closely by senior bank executives.

25. In marking the SCP's securities at month-end in February 2012, JULIEN GROUT, the defendant, began to set some of the marks farther from the crude mid, at a price more favorable to the CIO's profits, somewhat mitigating the losses being

suffered in the SCP. Nonetheless, at the end of February, the CIO reported (based on GROUT's marks) approximately $100 million in mark-to-market losses in the SCP.

MARTIN-ARTAJO and GROUT More Aggressively Hide CIO's Losses in March, Causing False Entries In the Bank's Books and Records Both Intra-Month and at Month-End

26. On March 1, 2012, the supervisor of JAVIER MARTIN-ARTAJO, the defendant, sent an email message to MARTIN-ARTAJO, suggesting that he "[f]ocus on the metrics and P+L of the synthetic book" and expressing a worry that, if the size of the SCP were reduced to accomplish a reduction in risk, "we will not be able to defend our positions...," and the SCP's profits would suffer.

27. In March 2012, the usual data points used to value the positions in the SCP - bid and offer quotes from dealers, MarkIT and Totem prices, and actual transaction prices - continued to move against the SCP, resulting in further losses in the SCP's positions. The losses mounted even as the CIO traders continued to increase dramatically the size of their positions in the SCP as part of a strategy designed in part to stem the losses.

28. In the beginning of March 2012, JAVIER MARTIN-ARTAJO, the defendant, directed JULIEN GROUT, the defendant, and CC-1, not to show any additional losses in the SCP if the losses were caused by the continued downward trend in the market data

that the traders were receiving - but to continue to show gains. MARTIN-ARTAJO directed that, unless there was an identifiable and explainable market event that the traders could reference to explain the negative price movement - for example, a bankruptcy filing by one of the companies whose bonds were referenced in a credit index - no losses were to be reported in the marks or to the bank's management. MARTIN-ARTAJO claimed that this was what "New York" - that is, the bank's senior management in New York - wanted, explaining that those JPM officials did not want to see day-to-day market volatility.

29. On March 6, 2012, CC-1 told JULIEN GROUT, the defendant, in a recorded phone call, that CC-1 had just spoken with JAVIER MARTIN-ARTAJO, the defendant. CC-1 explained to GROUT that MARTIN-ARTAJO had directed that "we have to try to show that the P and L is stable" and "what Javier would like is that if you start to see some gains we have to report it", but that "what they don't want is for us to be down." CC-1 told GROUT that MARTIN-ARTAJO was trying to make the argument to more-senior management that the positions in the SCP should be retained. MARTIN-ARTAJO did not want more-senior management to take away the SCP from CIO, or direct that the CIO change its strategy, and reporting additional losses would undermine this objective.

30. CC-1 was uncomfortable following the direction not to report losses from JAVIER MARTIN-ARTAJO, the defendant, for more than a brief period of time, because as objective price data indicated that the SCP was losing money, the gap between where the SCP was marked and the relevant market data was growing larger and larger. By at least on or about March 9, 2012, CC-1 asked JULIEN GROUT, the defendant, to create a spreadsheet for the express purpose of tracking the difference between GROUT's manipulated marks on the one hand, and the crude mids - that is, the objective market data - on the other. GROUT did so and, at CC-1's request, GROUT sent a copy of that spreadsheet to MARTIN-ARTAJO.

31. For example, on March 15, 2012, CC-1 told JULIEN GROUT, the defendant, in the course of an online chat, to "Send the pnl," meaning to finalize and report within the bank the daily marks (and resulting P&L) for the SCP. CC-1 then asked GROUT "Can u drop me here the breakdown of the lag [the difference between where the positions were marked and the crude mids], please? . . . And send it to javier [MARTIN-ARTAJO by] email. . . . put me in copy . . . I refer to the spreadsheet." Later in the same chat, CC-1 clarified: "Send to me and Javier

the spreadsheet where u store the breakdown of the difference[2] between our estimates and crude mids."

32. Later that day, at approximately 6:45 p.m. Greenwich Mean Time, JULIEN GROUT, the defendant, sent an e-mail to JAVIER MARTIN-ARTAJO, the defendant, and CC-1, attaching a spreadsheet. The spreadsheet had columns, among others, entitled "Date," "Distance," "iTraxx," "CDX.IG," "iTraxx.Main," "CDX.IG9 10y," "CDX.HY," and "Distance YTD." For example, the spreadsheet reflected, among other columns not reproduced here, the following information:

Date	Distance
12-Mar-12	(203)
13-Mar-12	(207)
14-Mar-12	(269)
15-Mar-12	(292)

GROUT's spreadsheet, then, indicated one measure of the extent to which the SCP was mis-marked as of March 15, 2012: the marks made by GROUT, consistent with MARTIN-ARTAJO's instructions, left the SCP overstated by $292 million as compared to where the

[2] The traders used different terms, at different times, to describe the gap between the "crude mids" and the actual mark that GROUT assigned a given security, including "lag," "distance," "divergence," and "difference."

book would have been marked had the traders continued their practice of marking to the crude mids.

33. Both JULIEN GROUT, the defendant, and CC-1 knew about the instruction by JAVIER MARTIN-ARTAJO, the defendant, to stop reporting losses. During the March 15, 2012 chat, referenced in paragraph 29, above, GROUT reminded CC-1 that he was "not marking at mids as per a previous conversation." However, on March 15, 2012, it became clear that GROUT and CC-1 had different ideas about how to accomplish MARTIN-ARTAJO's directive. GROUT was trying to capture almost all the distance between the crude mids and the CIO marks by aggressively mis-marking one particular security, the CDX.NA.IG9-10Y, in which the CIO held a large position. As a result, that one position was marked extremely far from the crude mid price - between 6 and 7 basis points away, which was far outside the bid-offer spread for that security, and was mis-marked by more than $300 million. CC-1 indicated to GROUT that he did not think the way in which GROUT was marking was "realistic" and questioned whether it could be defended. GROUT thereafter acknowledged that he did not think his own mark for the CDX.NA.IG9-10Y was realistic, writing to CC-1: "i mean, im trying to keep a relatively realistic picture here -ig9 10y put aside."

34. The following day, March 16, 2012, JULIEN GROUT, the defendant, had an online chat with CC-1. GROUT stated that

he was "at minus 4 [million] with a lot of effort." GROUT offered to "do better" but CC-1 told GROUT not to make the additional effort to disguise the loss. During the chat, CC-1 stated his frustration with JAVIER MARTIN-ARTAJO, the defendant, because the distance between the actual fair value of the securities in the SCP and the level at which GROUT had marked the securities, was persisting and even growing: "I don't know where he [MARTIN-ARTAJO] wants to stop, but it's getting idiotic."

35. The same day, CC-1 emailed JAVIER MARTIN-ARTAJO, the defendant, and stated that the "divergence has increased to 300 [million] now . . . It has been like this since the start of the year and the drift keeps going. I reckon we get to 400 [million] difference very soon." CC-1 was concerned that as the available market data showed increasing losses for the SCP, MARTIN-ARTAJO's direction to not report those losses was growing "idiotic" - the marks in the SCP for the largest positions were approaching the point at which they would need to be outside the bid-offer spread in order for the losses not to be reported. That is, CIO would have to value the securities at prices that not only failed to reflect fair value, but that were beyond what any broker would quote as a conceivable price.

36. Also on March 16, 2012, CC-1 relayed prices at which he had traded certain securities to JULIEN GROUT, the

defendant. Based on those fresh transaction prices, CC-1, in an online chat with GROUT, told GROUT that the marks for the CDX.NA.IG9, five-year maturity, should be at $72; the marks for the CDX.NA.IG9, seven-year maturity, should be at $88; and the marks for the CDX.NA.IG9, ten-year maturity should be at $110.[3] GROUT responded that he agreed and would mark those securities as CC-1 had indicated. In fact, however, GROUT set the marks even more favorably for JPM: for the CDX.NA.IG9, five-year maturity, at $70.25; for the seven-year maturity, at $85.75; and for the ten-year maturity, at $107.25 - in each case, marking in a direction favorable to the SCP's P&L, and an additional two and three quarters basis points away from where GROUT told CC-1 he would mark.

37. Between approximately March 16 and March 20, 2012, CC-1 urged JAVIER MARTIN-ARTAJO, the defendant, to reflect the losses in some way on the books of the bank: either by properly adjusting the marks in the SCP to reflect the true market data; or by taking a large, "one-off" loss to catch up to the market, possibly at month-end; or by taking some other measure to ensure the bank's books and records were accurate.

[3] CC-1 did not suggest marking at the exact transaction price; rather, the marks that he recommended were roughly two basis points away from the transaction price, in a direction beneficial to the SCP's P&L. In an e-mail to JAVIER MARTIN-ARTAJO, the defendant, dated March 16, 2012, CC-1 justified this suggested mark as being the price at which CC-1 could have traded in larger quantities.

MARTIN-ARTAJO rebuffed these efforts. CC-1 and JULIEN GROUT, the defendant, subsequently discussed MARTIN-ARTAJO's refusal to have the losses reported, and the pressure this put on GROUT, who had responsibility for marking the positions on the SCP on a daily basis.

38. On March 20, 2012, CC-1 decided that the SCP's marks had to begin to reflect the market reality, that is, bigger losses in the SCP. CC-1 left a voicemail message for JAVIER MARTIN-ARTAJO, the defendant, saying that CC-1 thought that CIO "should start, start showing" the losses in the SCP. CC-1 then spoke with JULIEN GROUT, the defendant, and told GROUT that the book should be marked in a way that reflected the day's loss of $40 million, bringing the reported year-to-date losses to $275 million.

39. On March 20, 2013, JAVIER MARTIN-ARTAJO, the defendant, reacted angrily after he received the document reporting the single-day loss of $40 million. That same day, in a recorded call between MARTIN-ARTAJO and CC-1, MARTIN-ARTAJO asked "Why did you do that?" CC-1 replied "I thought we should, you know, not do like minus 5 every day but just say okay boom you know there is something happening." MARTIN-ARTAJO responded: "I don't understand your logic mate, I just don't understand. I told [my boss], he told me that he didn't want to show the loss until we know what we are going to do tomorrow [at

a scheduled meeting with the Chief Investment Officer]. But it doesn't matter I know that you have a problem you want to be at peace with yourself . . . I didn't want to show the P&L and [my boss] told me yesterday not to do it. So okay, we're just going to have to explain that this is getting worse, that's it." CC-1 then pointed out the portion of the commentary in which he had described the lag in P&L as reaching as high as $800 million, and MARTIN-ARTAJO responded: "You're losing your mind here, man, you're sending an email that you would get, what is this 800 [million] bucks . . . [T]his is just what we explain tomorrow you don't need to explain in an email man . . . [W]hy do you do it today when we are going to explain it tomorrow?" CC-1 replied that he and GROUT reported the loss because "that's what we saw today . . ." MARTIN-ARTAJO responded, "listen the problem that, okay it's fine you've done it I cannot really tell you, you know, not to do this, you've done it because you feel you have to do it, that's okay. What I don't understand is at all is why are you explaining this, this way on the email? . . . because this only creates, it just creates more tension you understand? It's not going to help me as much, right? . . . What happens if [the Chief Investment Officer] tells me that we cannot keep going long?" MARTIN-ARTAJO went on to explain that "it just highlights that there are problems in the book" and that there was a chance that MARTIN-ARTJO's immediate boss and

the Chief Investment Officer would decide to have the CIO unwind certain positions that MARTIN-ARTAJO wants to keep.

40. Finally, JAVIER MARTIN-ARTAJO, the defendant, repeated that "I didn't want to show the P&L"; CC-1 apologized, and MARTIN-ARTAJO responded that "you know, I think that you're an honest guy, you know, it's just that, I did not want you to do it this way, but I know you feel that the bid offer spreads are giving you a headache, and you want to release it this way. . . ."

41. On March 23, 2012, the market continued to move against the SCP. On that date, in a chat between CC-1 and JAVIER MARTIN-ARTAJO, the defendant, CC-1 stated that "we will lose more today . . . this is going to happen across the book . . . I reckon we have today a loss of 300M USING THE BEST BID ASKS . . . and approx 600m from [the crude] mids. . . ." In a different chat the same day, between CC-1 and JULIEN GROUT, the defendant, GROUT stated that "it's around . . . to more than 500 anyway."

42. As the CIO's daily marks bore less and less resemblance to the actual fair value of its book, CC-1 worked with others at the CIO to create a PowerPoint presentation that set forth the risks and issues with the SCP. On March 29, 2012, a draft of the PowerPoint presentation was circulated to JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, CC-1, Trader #2,

and others at the CIO. In a section entitled "Core Credit Book: summary," the document listed the following: "target ytd: -$750M." A separate slide of the presentation labeled "P&L explain" described the P&L as negative $800 million, with the bulk of the loss driven by losses in the CDX.NA.IG9 positions. However, the P&L submitted by GROUT the following day showed a year-to-date loss of only $583 million, despite a very large loss on the last day of the month.

43. On March 30, 2012 - the last business day of the first quarter of 2012 - the early estimates of JULIEN GROUT, the defendant, showed the SCP down approximately $250 million for the day. GROUT told CC-1, who in turn told JAVIER MARTIN-ARTAJO, the defendant. MARTIN-ARTAJO asked if the loss could be only $200 million; CC-1 reported this request to GROUT. Later in the day, GROUT told CC-1 that he now estimated the loss for the day at approximately $200 million. CC-1 reported this number to MARTIN-ARTAJO. MARTIN-ARTAJO then asked if the loss number could be reduced to as low as $150 million; CC-1 responded that it was unlikely. MARTIN-ARTAJO then told CC-1 that he could leave for the day. While the SCP was typically marked at the London close of business, when CC-1 left at approximately 6:30 p.m., the books were still open, and they remained open despite inquiries to GROUT from others waiting for the final numbers, until almost 8 p.m. London time.

44. Through the day on March 30, 2012, JAVIER MARTIN-ARTAJO, the defendant, received repeated inquiries on behalf of the Chief Investment Officer in New York, urgently seeking his best estimate as to what the day's loss would be. At 8:15 p.m. GMT, MARTIN-ARTAJO indicated that "[w]e are going to close the books in one hour and still around -150 MM." Before the books were closed, JULIEN GROUT, the defendant, spoke with CC-1 in a recorded phone call, explaining some of the marks he was making. CC-1 urged GROUT to stay within the bid-offer range, and that it was better to do "something cleaner with a . . . you see . . . a lesser result." Finally, at 8:41 p.m. GMT, GROUT sent an email to MARTIN-ARTAJO and CC-1, indicating that "my latest estimate for today's PnL is ($138M)." MARTIN-ARTAJO responded: "Excellent tks."

45. At March 2012 month-end, most of the marks for the largest SCP positions set by JULIEN GROUT, the defendant, were at the far side of the bid-offer spread in the direction favorable to the CIO, and a mark for one sizeable position even fell outside of the spread. For example, GROUT marked the ITRAXX.MN.S09 10Y fully 6.3 points off of the consensus pricing (that is, the pricing provided by independent pricing services such as MarkIt or Totem), when the bid/offer spread in ITRAXX was consistently less than 3 basis points throughout the day. Similarly, GROUT marked the CDX.NA.IG9-10Y approximately 2.5

basis points from the consensus price, whereas the bid/offer spread was consistently no more than 2 basis points. Given the large size of the ITRAXX and CDX.NA.IG9-10Y positions in the SCP, this resulted in a significant P&L difference.

46. Indeed, according to a subsequent analysis performed by JPM's Investment Bank, the difference across the SCP between the marks entered by JULIEN GROUT, the defendant, on the one hand, and the consensus pricing, on the other, across the SCP amounted to a difference of approximately $767 million in CIO's favor as of March month-end.

The Mis-Marking of the SCP Continues in April

47. On Friday, April 6, 2012, Bloomberg and the Wall Street Journal published articles concerning CIO and its large positions in the credit derivatives market. On April 10, 2012 - the first trading day after the articles were published - JULIEN GROUT, the defendant, circulated a P&L e-mail that reflected a daily loss of $5.7 million, after speaking with JAVIER MARTIN-ARTAJO, the defendant. About 90 minutes later, however, GROUT circulated a second P&L e-mail. This one reflected a loss for the day of $395 million. The P&L commentary reflected no explanation for this change.

48. On April 13, 2012, JULIEN GROUT, the defendant, spoke with CC-1 in a recorded call, and indicated, in substance, that the "problem is what type of reporting should I do . . .

you see, it's highly scrutinized now. . . [t]he market moves (inaudible) and I don't want to, I don't want to show something that is too false."

49. Toward the end of April, CIO had a series of collateral disputes with counter-parties, indicating that those brokers were marking positions materially differently than CIO. At that time, JULIEN GROUT, the defendant, exchanged electronic messages with CC-1. In the exchange, CC-1 told GROUT to "[s]peak to Javier about this collateral mark issue" and that they would have to return to the mid "fairly quickly."

MARTIN-ARTAJO, GROUT, and their Co-Conspirators Hide the Mismarks by Taking Advantage of CIO's Valuation Control Group

50. At all times relevant to this Indictment, the CIO's Valuation Control Group ("VCG") was supposed to serve as an independent function within CIO, as it did in other parts of JPM. The VCG function was designed to serve as an independent check on the valuations assigned by traders to the securities that the traders were marking at month-end. In practice, however, the CIO VCG was neither independent nor rigorous.

51. Staffed in London with essentially a single employee (the "VCG Employee"), the CIO's VCG regularly received and relied upon trader views of the market, and reviewed selected broker price quotes provided by the traders. In addition, the VCG employed "thresholds" around its prices, which

had the effect of tolerating some variance between the traders' marks and the VCG Employee's "independent" marks. In practice, however, the VCG Employee applied unreasonably wide thresholds, which had the effect (contrary to CIO VCG's written policy and U.S. GAAP) of tolerating trader prices that were outside of the bid-offer spread.

52. Finally, as designed, the CIO's VCG had no review role whatsoever concerning intra-month marks, which were left to the unfettered discretion of the traders, even though those marks were recorded in JPM's books and records.

53. As part of their scheme, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and their co-conspirators, took full advantage of the freedom that the CIO's VCG function offered. JAVIER MARTIN-ARTAJO and JULIEN GROUT, and other CIO traders, regularly interacted with the VCG Employee, provided their views of the market to the VCG Employee, and provided their selection of broker quotes to the VCG Employee, with the result that the CIO's VCG ultimately did not perform a meaningful check on the trader valuations.

54. For example, for February 2012, the VCG price-testing had initially identified a discrepancy between VCG's independent marks and GROUT's marks that would have resulted in a $95 million adjustment to the SCP's P&L. GROUT subsequently provided a selection of broker price quotes and other

information to the VCG Employee, and as a result, the VCG Employee reduced the difference to only $7 million - and then decided to pass no adjustment whatsoever to the February 2012 marks in the SCP.

55. JAVIER MARTIN-ARTAJO, the defendant, also made efforts to influence the CIO VCG view on the marks for the positions in the SCP. In the latter part of March 2012, CC-1 told MARTIN-ARTAJO that, because the marks were moving so far from the crude mids and approaching the outer bounds of the bid-offer spread, it was inevitable that the VCG Employee would report a large difference - which would have the effect of revealing the very losses that MARTIN-ARTAJO was determined to hide. MARTIN-ARTAJO told CC-1 that he would take care of the situation.

56. In or about April 2013, as part of the month-end price testing process, the VCG Employee noticed that the marking methodology for the SCP had appeared to change, from roughly the crude mids in January and February 2012, to the favorable outer bounds of the bid-offer spread for most of the SCP's largest positions in March 2012. The VCG Employee asked JULIEN GROUT, the defendant, about the new pattern of marking to the beneficial edge of the bid-offer spread; GROUT replied: "Ask management."

57. In late April and the beginning of May 2012 - after the press reports about the CIO's large positions in the SCP, and after still-increasing losses - JPM senior management began looking more closely at the process the traders used to value the securities in the SCP. As part of that effort, an employee with JPM's Controller's office (the "Controller Employee") began speaking with the CIO traders.

58. On or about April 29, 2012, the Controller Employee spoke with JAVIER MARTIN-ARTAJO, the defendant, about the month-end marks in the SCP. MARTIN-ARTAJO told the Controller Employee, in substance, "I'm a trader. I do not mark the books to U.S. GAAP. My job is to manage risk."

59. On or about May 6, 2012, the Controller Employee spoke with CC-1 about the marks for the positions in the SCP as of March 30, 2013. During that conversation, CC-1 told the Controller Employee, in response to questions about the quarter-end marks for two particular positions, that those positions were marked incorrectly. As to one of the positions, CC-1 stated: "it's too wide, I agree, I agree. One to two basis points too wide." As to the other, the Controller employee asked: "Broker mids were at 70 . . . The quotes are between 70 and 71, and yet we are appearing at 72 spot 75. What was, what was the thought process behind putting us at 72 spot 75?" CC-1

responded: "[b]asically, I think we went too wide, I think we went too wide on this one."

60. On or about May 8, 2012, the Controller Employee called JAVIER MARTIN-ARTAJO, the defendant, to ask about the March month-end marks. MARTIN-ARTAJO acknowledged the Controller Employee's observation that in January, the SCP marks "were all either mid or somewhere close to mid," whereas the marks for March had "migrated . . . to the aggressive side . . . from mid to somewhere closer to being at the . . . bounds of the bid or offer." Nonetheless, as part of his effort to deflect inquiries into the legitimacy of the marks, MARTIN-ARTAJO insisted that the SCP traders did not have a "bias," and that MARTIN-ARTAJO himself was not "particularly aggressive in March."

The April 13, 2012 Filing of JPM's Form 8-K and the May 10, 2012 Filing of JPM's Form 10-Q for the First Quarter

61. On or about April 13, 2012, JPM issued an earnings release setting forth its financial results for the first quarter 2012, which was filed on Form 8-K with the SEC. The earnings release, which JPM senior management described in a phone call with investors, disclosed JPM's consolidated financial results as well as results for its Corporate/Private Equity segment. Those results significantly understated the

extent of the losses in the SCP, and as a result, the total losses in the Corporate/Private Equity segment.

62. On or about May 10, 2012, JPM filed its Form 10-Q with the SEC, setting forth its financial results for the first quarter of 2012, and repeating the same financial results which it had stated on April 13, 2012 for the first quarter.

The July 2012 Restatement

63. On or about July 13, 2012, JPM filed a Form 8-K with the SEC announcing, among other things, that it would be restating its first quarter net earnings for net revenue by $660 million and restating its net income by $459 million. That is, JPM's restatement had the effect of nearly doubling the total losses in the Corporate/Private Equity segment, from negative $563 million (originally) to negative $1.022 billion (restated).

64. Significantly, all of this write-down was attributable to the SCP and included position marks that JAVIER MARTIN-ARTAJO, the defendant, and others, manipulated and inflated in connection with their scheme. In explaining the reason for the restatement, JPM stated, regarding the CIO, that it "discovered information that raises questions about the integrity of the trader marks and suggests that certain individuals may have been seeking to avoid showing the full amount of the losses in the portfolio during the first quarter." A separate JPM analysis found that 107 of the 132 positions

within the SCP were marked more favorably than the mid-market price at the end of the first quarter 2012, and that many of the positions were marked at the advantageous end of the bid-offer spread.

65. On or about August 9, 2012, JPM formally restated its first quarter financials, consistent with its July 13, 2012 announcement, by filing an amended 10-Q with the SEC.

Statutory Allegations

66. From at least in or about March 2012, through and including in or about May 2012, in the Southern District of New York and elsewhere, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, together with others known and unknown, willfully and knowingly did combine, conspire, confederate, and agree together and with each other to commit offenses against the United States, to wit,(a) falsification of books and records, in violation of Sections 78m(b)(2)(A), 78m(b)(5) and 78ff of Title 15, United States Code, and Title 17, Code of Federal Regulations, Section 240.13b2-1; (b) wire fraud, in violation of Title 18, United States Code, Section 1343; (c) falsification of filings with the Securities and Exchange Commission ("SEC"), in violation of Title 15, United States Code, Sections 78m(a) and 78ff, and Title 17, Code of Federal Regulations, Sections 240.13a-11 and 240.13a-13; and (d) securities fraud, in violation of Title 15, United States Code, Sections 78j(b) and

78ff and Title 17, Code of Federal Regulations, Section 240.10b-5.

Objects of the Conspiracy

False Books and Records

67. It was a part and an object of the conspiracy that JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and others known and unknown, willfully and knowingly, would and did, directly and indirectly, falsify and cause to be falsified books, records, and accounts subject to Section 13(b)(2) of the Exchange Act of 1934, namely books, records, and accounts of JPM, an issuer with a class of securities registered pursuant to Section 12 of the Securities and Exchange Act of 1934, which JPM was required to make and keep in reasonable detail, accurately and fairly reflecting the transactions and dispositions of the assets of JPM, in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5) and 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-1.

Wire Fraud

68. It was further a part and an object of the conspiracy that JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and others known and unknown, willfully and knowingly, having devised and intending to devise a scheme and artifice to defraud, and for obtaining money and property by means of false and fraudulent pretenses, representations, and

promises, for the purpose of executing such scheme and artifice and attempting to do so, would and did transmit and cause to be transmitted by means of wire, radio, and television communication in interstate and foreign commerce, writings, signs, signals, pictures, and sounds, all in violation of Title 18, United States Code, Sections 1343 and 1349.

False SEC Filings

69. It was further a part and an object of the conspiracy that JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and others known and unknown, willfully and knowingly, would and did make and cause to be made statements in reports and documents required to be filed with the SEC under the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, which statements were false and misleading with respect to material facts, all in violation of Title 15, United States Code, Sections 78m(a) and 78ff, and Title 17, Code of Federal Regulations, Sections 240.13a-11 and 240.13a-13.

Securities Fraud

70. It was further a part and an object of the conspiracy that JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and others known and unknown, willfully and knowingly, directly and indirectly, by use of the means and instrumentalities of interstate commerce, the mails and the

facilities of national securities exchanges, would and did use and employ manipulative and deceptive devices and contrivances in connection with the purchase and sale of securities, in violation of Title 17, Code of Federal Regulations, Section 240.10b-5, by (1) employing devices, schemes and artifices to defraud; (2) making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (3) engaging in acts, practices, and courses of business which operated and would operate as a fraud and deceit upon other persons, in violation of Title 15, United States Code, Sections 78j(b) and 78ff.

Means and Methods of the Conspiracy

71. Among the means and methods by which JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and their co-conspirators, would and did carry out the conspiracy were the following:

a. MARTIN-ARTAJO, GROUT, and their co-conspirators recorded and caused others to record false marks for securities positions in the SCP, which did not reflect fair value.

b. MARTIN-ARTAJO, GROUT, and their co-conspirators used interstate and foreign wires in furtherance of the objects of the conspiracy.

Overt Acts

72. In furtherance of the said conspiracy and to effect the illegal objects thereof, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and their co-conspirators, committed the following overt acts, among others, in the Southern District of New York and elsewhere:

a. On or about March 30, 2012, GROUT sent an e-mail from London, United Kingdom, to a JPM employee in New York, New York.

b. On or about March 30, 2012, MARTIN-ARTAJO who was in London, United Kingdom, had a telephone conversation with a JPM employee who was in New York, New York.

c. On or about April 13, 2012, in New York, New York, MARTIN-ARTAJO and GROUT caused JPM to issue its earnings release for the quarter-ending March 31, 2012, which was filed on a Form 8-K with the SEC, with false and fraudulent information provided by MARTIN-ARTAJO and GROUT.

d. On or about May 10, 2012, in New York, New York, MARTIN-ARTAJO and GROUT caused JPM to file its Form 10-Q with the SEC with false and fraudulent information provided by MARTIN-ARTAJO and GROUT.

(Title 18, United States Code, Section 371.)

COUNT TWO
(False Books and Records)

The Grand Jury further charges:

73. The allegations contained in paragraphs 1 through 65 and 72 of this Indictment are hereby repeated, realleged and incorporated by reference as if fully set forth herein.

74. From at least in or about March 2012, through and including in or about May 2012, in the Southern District of New York and elsewhere, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, and others known and unknown, willfully and knowingly, did, directly and indirectly, falsify and cause to be falsified books, records, and accounts subject to Section 13(b)(2) of the Exchange Act, namely books, records, and accounts of JPM, an issuer with a class of securities registered pursuant to the Exchange Act, which JPM was required to make and keep in reasonable detail, accurately and fairly reflecting the transactions and dispositions of the assets of JPM, to wit, MARTIN-ARTAJO and GROUT falsified and caused others to falsify marks relating to JPM's securities positions in the SCP in order to conceal hundreds of millions of dollars in losses.

(Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5) and 78ff, Title 17, Code of Federal Regulations, Section 240.13b2-1 and Title 18, United States Code, Section 2.)

COUNT THREE
(Wire Fraud)

The Grand Jury further charges:

75. The allegations contained in paragraphs 1 through 65 and 72 of this Indictment are hereby repeated, realleged and incorporated by reference as if fully set forth herein.

76. From at least in or about March 2012, through and including in or about May 2012, in the Southern District of New York and elsewhere, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, willfully and knowingly, having devised and intending to devise a scheme and artifice to defraud, and for obtaining money and property by means of false and fraudulent pretenses, representations and promises, did transmit and cause to be transmitted by means of wire and radio communication in interstate and foreign commerce, writings, signs, signals, pictures, and sounds, to wit, for example, a telephone conversation on or about March 30, 2012, between London and New York, for the purpose of executing such scheme and artifice, to wit, MARTIN-ARTAJO's and GROUT's efforts to fraudulently manipulate the reported value of JPM securities positions in the SCP in order to conceal hundreds of millions of dollars in losses.

(Title 18, United States Code, Sections 1343, 1349 and 2.)

COUNT FOUR
(False Filings With The SEC)

The Grand Jury further charges:

77. The allegations contained in paragraphs 1 through 65 and 72 of this Indictment are hereby repeated, realleged and incorporated by reference as if fully set forth herein.

78. On or about April 13, 2012 and May 10, 2012, in the Southern District of New York and elsewhere, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, willfully and knowingly, made and caused to be made statements in reports and documents required to be filed with the SEC under the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, which statements were false and misleading with respect to material facts, to wit, MARTIN-ARTAJO and GROUT caused and aided and abetted the submission to the SEC of an inaccurate Form 8-k for JPM on April 13, 2012, and an inaccurate Form 10-Q for JPM on May 10, 2012, for the fiscal quarter ending March 30, 2012.

(Title 15, United States Code, Sections 78m(a) and 78ff;
Title 17, Code of Federal Regulations,
Sections 240.13a-11 and 240.13a-13;
and Title 18, United States Code, Section 2.)

COUNT FIVE
(Securities Fraud)

The Grand Jury further charges:

79. The allegations contained in paragraphs 1 through 65 and 72 of this Indictment are hereby repeated, realleged and incorporated by reference as if fully set forth herein.

80. From at least in or about March 2012, through and including in or about May 2012, in the Southern District of New York and elsewhere, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, willfully and knowingly, directly and indirectly, by use of the means and instrumentalities of interstate commerce and of the mails, and of the facilities of national securities exchanges, in connection with the purchase and sale of securities, did use and employ manipulative and deceptive devices and contrivances in violation of Title 17, Code of Federal Regulations, Section 240.10b-5, by (a) employing devices, schemes, and artifices to defraud; (b) making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaging in acts, practices, and courses of

business which operated and would operate as a fraud and deceit upon persons.

(Title 15, United States Code, Sections 78j(b) & 78ff; Title 17, Code of Federal Regulations, Section 240.10b-5; and Title 18, United States Code, Section 2.)

FORFEITURE ALLEGATION

81. As the result of committing the securities and wire fraud offenses alleged in Counts One through Five of this Indictment, JAVIER MARTIN-ARTAJO and JULIEN GROUT, the defendants, shall forfeit to the United States, pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461, all property, real and personal, that constitutes or is derived from proceeds traceable to the commission of the offenses, including but not limited to a sum of money representing the total approximate amount paid by JPM to MARTIN-ARTAJO and GROUT during the time they committed, and as a result of their commission of, the foregoing offenses.

(Title 18, United States Code, Section 981(a)(1)(C); Title 21, United States Code, Section 853(p); and Title 28, United States Code, Section 2461.)

Substitute Asset Provision

82. If any of the forfeitable property described in this Indictment, as a result of any act or omission of the defendants:

a. cannot be located upon the exercise of due diligence;

b. has been transferred or sold to, or deposited with, a third person;

c. has been placed beyond the jurisdiction of the Court;

d. has been substantially diminished in value; or

e. has been commingled with other property which cannot be subdivided without difficulty;

it is the intent of the United States, pursuant to Title 18, United States Code, Section 982(b) and Title 21, United States Code, Section 853(p), to seek forfeiture of any other property of the defendants up to the value of the forfeitable property described above.

(Title 18, United States Code, Sections 371, 1343 and 981; Title 21, United States Code, Section 853(p); and Title 28, United States Code, Section 2461.)

[redacted]

Preet Bharara

PREET BHARARA
United States Attorney

Form No. USA-33s-274 (Ed. 9-25-58)

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA

- v. -

JAVIER MARTIN-ARTAJO
and JULIEN GROUT,

Defendants.

INDICTMENT

13 CR ____

(Title 18, United States Code, Sections 371, 1343, 1349 and 2; Title 15, United States Code, Sections 78j(b), 78m(a), 78m(b)(2)(A), 78m(b)(5) and 78ff, and Title 17, Code of Federal Regulations, Sections 240.10b-5, 240.13a-11, 240.13a-13, 240.13b2-1)

PREET BHARARA
United States Attorney.

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[redacted]